

FACTORS AFFECTING CLIENT INFLUENCE ON PROPERTY VALUATION IN MALAYSIA: DO CLIENT SIZE AND SIZE OF VALUE ADJUSTMENT MATTER?

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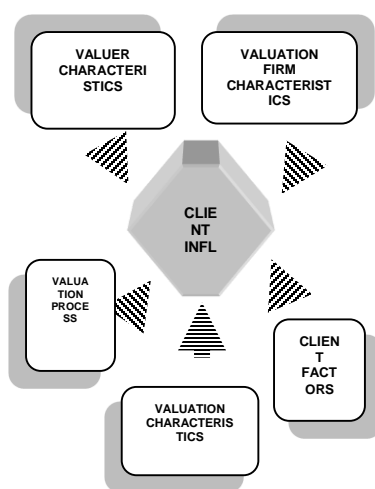
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Abstract

Client influence on property valuation has been an emerging theme of behavioural research in the real estate discipline. Studies on valuers' decision-making behaviour imply that client influence is an important source of judgemental bias. Academic interest in client influence research has evolved from identifying the existence of client pressure to studies that explain the mechanism of client influence. A questionnaire survey was administered to valuers to measure their perception with regard to factors affecting client influence in Malaysia. The effect of client size and size of value adjustment requested by clients on valuation were also tested in a behavioural experiment. The survey revealed that valuers in Malaysia perceived client characteristics and valuer characteristics as some of the most important factors affecting client influence on valuations. It was found that factors such as type of client, size of client, integrity of valuer and experience of valuer could potentially impact on the amount and type of influence exerted on valuations. The results of the logistic regression model indicated that neither the client size nor magnitude of value adjustment requested by client affected the decisions of valuers to alter valuation outcome.

Keywords: Real estate valuation, client influence, ethics, Malaysia

Abstrak

Pengaruh klien terhadap penilaian harta telah menjadi tema utama penyelidikan tingkah laku dalam bidang harta tanah. Kajian ke atas tingkah laku penilai dalam membuat keputusan nilai menunjukkan bahawa pengaruh klien merupakan antara sumber penting yang boleh menjadikan keputusan tersebut bias atau berat sebelah. Kepentingan akademik dalam bidang ini telah berkembang daripada tugas mengenal pasti kewujudan tekanan klien kepada kajian yang menjelaskan mekanisme pengaruh klien. Satu kajian soal selidik telah dijalankan di kalangan penilai untuk mengukur persepsi mereka terhadap faktor-faktor yang memberi kesan kepada pengaruh klien dalam penilaian harta tanah. Saiz klien dan magnitud pelarasan nilai yang diminta oleh klien turut diuji kesannya ke atas penilaian dengan menggunakan satu eksperimen. Kaji selidik ini menunjukkan bahawa penilai di Malaysia melihat ciri-ciri klien dan ciri-ciri penilai sebagai sebahagian daripada faktor-faktor yang paling mempengaruhi pengaruh klien dalam penilaian harta tanah. Kajian ini mendapati bahawa faktor-faktor seperti jenis pelanggan, saiz pelanggan, integriti dan pengalaman penilai berpotensi untuk memberi kesan kepada kekuatan dan jenis pengaruh yang dikenakan ke atas penilaian. Keputusan model regresi logistik menunjukkan bahawa keputusan penilai sama ada untuk mengubah hasil penilaian atas permintaan klien tidak dipengaruhi oleh saiz pelanggan atau magnitud pelarasan nilai yang diminta oleh klien.

Kata kunci: Penilaian harta tanah, pengaruh klien, etika, Malaysia

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1.0 INTRODUCTION

Property valuation is an integral part of property market operation. The role of valuations in the commercial and residential lending sector is self-explanatory in that they act as a risk control measure in the capital adequacy system maintained by financial institutions. Base [1] and the relevant EU Directives have further emphasised the significance of valuations in the secured lending sector. Valuations also facilitate transactions in the direct and indirect investment markets considering real estate's unique characteristics compared to other financial assets. Business entities need to value their properties regularly for financial reporting whilst institutional investors seek valuations to assess the performance of their investment funds. Property valuations, therefore, invariably affect the decisions of users, investors and developers in the property market. These needs for professional advice are also evident in view of the heterogeneous nature of property and market characteristics such as low transaction volume and lack of pricing information.

Considering the different uses for which valuation is required and decisions that rely on it, issues of reliability and quality of valuation have been raised by many academics and practitioners [2, 3, 4, 5]. Central to these issues has been the degree of accuracy of and variation between valuations provided by valuers. The former measures the ability of valuation to predict the sales price whilst the latter refers to the difference between two or more valuations undertaken for the same property. Although this divergence in the output of valuation is to be expected considering the uncertainties in the inputs of valuation [6], concerns were raised as to the magnitude or margin of error that should be allowed in practice [7]. More significantly, valuations have been shown to "smooth" or underestimate the risk of property return series [8, 9]. In addition to the smoothing introduced at the amount and quality of information utilised in the value analysis (normative view) but also may be affected by the valuer's cognitive biases and external influences.

One such external influence on valuation outcome is the client, for whom the value carries a lot of importance. In fact, evidence suggests that there is a strong possibility that variances in value conclusions are possibly contributed by client influences [21]. This has to be viewed in the context of client-valuer relationship where the competitiveness of the industry and the nature of professional service often make way for close interaction between valuers and their clients. Although such close interaction between valuers and their clients is part of the valuation process and may be necessary to improve the accuracy of valuation output, there are reasons to believe that client meetings and other forms of communication do provide opportunities for clients to influence values. A number of earlier works on client influence have investigated different sources of client influence through surveys before testing their effect on valuers' opinion quantitatively [22, 23, 24, 25, 26, 27]. Thus, it is not surprising to know that valuation process

can be affected by clients and valuers need to be aware of moral hazard problems that may arise as a result of their close relationship with their clients. Moreover, the client-valuer relationship may be far more complicated and subtle than one suggested by professional standards and codes of ethics.

Property valuation is an established profession in Malaysia considering its origin and development over the last 40 years. The valuation standards, in particular, are closely based on the UK'S Red Book and the International Valuation Standards (IVS). Valuers, as they are commonly known in Malaysia, by virtue of Valuers, Appraisers and Estate Agents Act 1981, are empowered to carry out all types of property valuations in the country. Under this Act of Parliament only valuers registered with the Board of Valuers, Appraisers and Estate Agents Malaysia are allowed to disaggregate level, aggregation of these individual valuations into an index produces a moving average of spot values or temporal aggregation [10, 11]. The key issues here, however, are the inherent degree of uncertainty in valuation and the extent of variation between valuations.

Further studies attempted to shed more light on valuation process and decision-making behavior of valuers. The latter, in particular, revealed the use of cognitive shortcuts or heuristics by valuers and how these strategies might introduce biases into the valuation process. Diaz [12], for instance, compared the actual valuation process followed by valuers against the normative valuation process and found that experienced valuers tend to approach valuation problems differently compared to what they were taught to do. Valuers' possible susceptibility to biases and anchoring and adjustment behavior have also been well-documented in the literature [13, 14, 15, 16, 17, 18, 19, 20]. In general, these experiment-based studies provide evidence that the accuracy of a valuation outcome is not only affected by the practice valuation in Malaysia. Although Malaysian valuers have been responding well to some of the ethical issues discussed above, there are evidences that they are potentially susceptible to client influence considering the need to retain clients [28]. This study, therefore, provides some empirical evidence of client influence phenomenon in the Malaysian property market, in particular, examines the likely impact of such influence on valuations.

The paper is structured as follows: section two contains the review of the relevant literature on client influence. Section 3 discusses the methodology and reports the findings whilst Section 4 discusses the implications of the results before conclusions are drawn.

2.0 CLIENT INFLUENCE

It is common to find the term 'influence' is used interchangeably with terms such as 'pressure' [26, 22, 30] and 'feedback' [23, 24, 31] in the literature. These different terms, however, were intended to refer to the

same issue; clients' specific actions to change property valuation outcomes. How this is actually achieved by clients may have justified the use of different terms. For example, pressurising valuers may be just one of the ways clients use to try to influence a valuation. 'Pressure' may come in many forms, from withholding payment to the threat of not giving future instructions to the valuation firm.

The same applies to client 'feedback', which can have indirect pressure on valuers' opinion. On the other hand, 'influence' appears to mean the end result or the actual effect; that is whether the valuation has actually been biased or diverged as a result of these pressures. Therefore, the expression 'influence' represents a broader and more appropriate concept than 'pressure'. The use of the term 'influence' also broadens the focus of client influence on the valuation process rather than just the final outcome.

As one of the pioneering studies in the area of client pressure, Smolen and Hambleton [29], conducted a questionnaire survey to gather empirical support on four interrelated client pressure issues: appraisers experience with client pressure, source of the pressure, type of threat or coercion received and awareness of fellow appraisers complying with client pressure. Their 292 valuer respondents were mainly involved in the preparation of residential appraisal for mortgage financing. Responding to one of the three questions regarding experience with client pressure, nearly 80% of respondents agreed that appraisers were pressured by clients specifically to alter market values. In addition, about 65% of respondents generally believed that clients in their market area are prone to impose pressure on or influence appraisers' market value estimates. Some 82% of the same respondents were also aware of the practice of their fellow appraisers complying with clients' demands to give revised valuations. Similar evidence of client pressure was also provided by Kinnard, Lenk, and Worzala [22] and Worzala, Lenk and Kinnard [30], in their respective survey with commercial and residential appraisers. In Kinnard, Lenk, and Worzala [22] for instance, over 90% of commercial appraiser respondents indicated that they had experienced such pressure, reiterating the view that client pressure is a serious threat to independent value judgement. Similar concerns were also revealed in a survey conducted with valuers in Singapore, Taiwan and Nigeria [32, 33, 34].

Wolverton and Gallimore [23] and Gallimore and Wolverton [24] suggest that client feedbacks during valuation may have a strong influence on how valuers view their role in the mortgage valuation task from one that provides independent value opinion to one that just validates pending sales price. The earlier study of the two, Wolverton and Gallimore [23] was conducted in the U.S. whilst Gallimore and Wolverton [24] surveyed the same issue in the context of valuers in the U.K. The first part of their study investigated valuers' self-assessment on their role in the mortgage valuation and this was contrasted with their view about their clients' requirement in the mortgage valuation. The respondents were asked to rate in Likert format from 1

(disagree) to 7 (agree) on the statement that the role of the appraiser "when doing mortgage appraisal work, (is) to validate pending sale price". In the second question, the respondents were instructed to rate their lender-clients' objective in the mortgage valuation from 1 (concerned about objectivity) to 7 (concerned about supporting the sale price). The mean scores for these measures indicated that appraisers were more in favour of providing an objective opinion of value whilst their clients were more interested in obtaining appraisals that support the sale price.

The most selected type of feedback among the UK valuers came from the positive enforcement category ("client does not contact me regarding the value") whilst the US study revealed that the two most selected feedbacks were in the form of environmental perception feedback ("client asks me to consider other comparable sales" and "client asks me if I am comfortable with the value"). Although the underlying nature of feedbacks was mostly in the form of environmental or positive feedbacks, analysis revealed that coercive feedbacks cannot be ignored. In the Wolverton and Gallimore [23], US study, for example, the third most prevalent type of feedback was "client pressures me to increase the appraised value". The same feedback came sixth in the UK study.

Wolverton [25] incorporated these feedback constructs into a regression model and concluded that environmental and coercive feedbacks were indeed influential to price validation behavior. The preliminary structural model of client influence from Wolverton [25] also revealed the impact of two key factors on valuer role perception: client type (mortgage broker clients or relocation company clients) and valuation firm ownership. Client feedback pressure, however, has very little effect on valuers' judgement in Nigeria [27]. This study extended the work of Wolverton and Gallimore [23] and Gallimore and Wolverton [24] on client feedback pressure to Nigerian estate surveyors and valuers. Data collection for the study was based on a similar questionnaire design used in the two preceding studies. The results of the study are comparable to the results of the UK study but differ with the US results which indicate a significant positive correlation between types of feedback and role perception of appraisers. It is not clear whether the similarities with the UK valuers were attributable to colonial legacy or other factors considering the limitation of the survey method.

Prior studies show that client size and the requested value adjustment are important in explaining client influence. For instance, Kinnard, Lenk, and Worzala [22] tested two scenarios which might put pressure on commercial appraisers to change their value judgement. The two scenarios were the fear of losing clients (client size) and the size of the value adjustment requested by clients. In this study, the size of client was determined according to the percentage of annual revenues provided by client, with five per cent revenue contribution indicating a 'small' client whilst 30 per cent revenue contribution considered as a 'big' client. As such, this is one of the earliest works that utilised behavioral methodology in studying the effect of client

pressure on commercial appraisal judgement. The purpose was primarily to gather evidence as to whether appraisers were influenced by the fear of losing clients as well as the size of the value adjustment requested by clients when making value judgement. These two factors were also tested jointly to find out the overall effect on value decisions. Their analysis indicates that only client size had significant relationship with appraisers' decision to revise their value. In other words, the bigger the client in terms of revenue contribution to the valuation firm, the more likely are appraisers to modify their initial value.

In contrast, another study with residential appraisers found that neither client size nor the level of value adjustment influenced the appraisers' decisions [30]. The logistic regression model of this study indicates that neither the individual variables nor the combined variables actually influenced the decision of participating appraisers. In other words, for residential appraisers, client size and the magnitude of value change requested by the lender client do not have any significant effect or pressure in their decision to choose one of the options.

One plausible explanation to this finding compared with commercial appraisals is that valuers may not differentiate clients according to size in residential property valuations. A significant 20% of respondents whose decisions were not included in the analysis commented that they would choose neither to revise nor to stick to their original value estimate in the given scenario. This can be considered more encouraging to the appraisal profession as respondents acknowledge the need to include up-to-date information in the value analysis as well to make sure the new information can be verified satisfactorily. The fact that a large number of respondents chose not to respond or suggested a third option that allowed the appraiser to wait and verify the data explains the possibility that there may be some other factors other than client size and value adjustment could have influenced the completed response. The outcome of the study was generally supportive of the client pressure claims in residential appraisals although the impact of this pressure on the actual valuation judgement needs further empirical testing.

A similar study involving Nigerian valuers by Amidu and Aluko [33] also shows that both the size of client and the amount of adjustment requested by clients did not affect valuers' decision to revise a valuation. The effect of client size, value adjustment requested by clients and the interaction of these two variables were tested in a logistic regression model using respondents' answers to a hypothetical valuation scenario. Although the alternative hypothesis was not supported in the study, about 60% of the surveyed respondents believe that valuers were actually manipulating valuations to accommodate for client requests whilst 70% of the survey participants had experienced such pressure recently. It should be noted that the pressure of losing a big client may not be adequately represented in a questionnaire-based scenario compared with the real-world experience. In addition, "sophistication" of the

client was also pointed out as another significant factor in the Levy and Schuck [35] client influence model. "Sophistication" may arise either as a result of client size or type of valuation assignment. Their findings were based on in-depth interviews with registered valuers New Zealand.

Levy and Schuck's [36] interviews with "sophisticated" clients have further emphasised the ways in which clients could actually influence, not only the valuation outcome but also the whole valuation process itself. The study was conducted primarily to explore the relationship between clients and valuers from the perspective of the sophisticated clients such as investment portfolio managers. A number of issues related to client motives to influence valuations, types of authority available to the client and opportunities clients have to use this authority were gathered from the semi-structured interviews. For instance, the interviewed clients stated that their main incentives to influence valuation results were underlined by the needs for market credibility and accurate and realistic valuations. This suggests that not all client influences are meant to bias reported values from market values. On hindsight, they also agreed that there were instances where the incentive to influence valuation may be based on personal gains especially with regards to performance-based remuneration. In terms of exerting power on valuers, "procedural power" also has the ability to create opportunities for the client to indirectly influence valuation outcomes. This refers to the choice of valuer, the terms of the contract and the instruction process. Kamalahasan [37] examined the applicability of these factors in an emerging market case study and proposed a number of potential factors affecting client influence as shown in Figure 1.

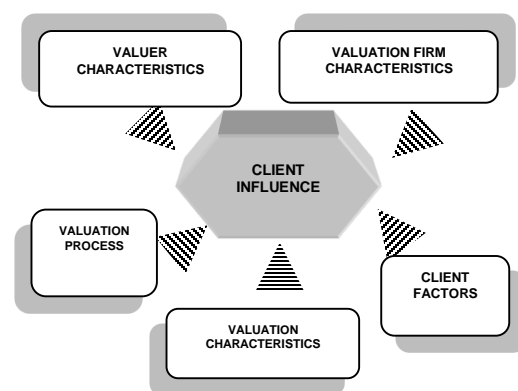


Figure 1 Client influence framework. Source: Kamalahasan [37]

Amidu and Aluko [38] analysed the perception of Nigerian valuers on a number of client influence factors identified by Levy and Schuck [35, 36]. Their mean analysis of five-point Likert scale shows that only integrity of valuer or valuation firm, importance of the valuation outcome to the client and client size were rated highly by respondents. Amidu and Aluko's [38] further analysis to identify whether there is a relationship between size of valuation firm, the amount of experience and

education of valuers and their perception of client influence factors revealed that there was no statistical association between these factors.

Baum *et al.* [39] conducted semi-structured interviews with more than 30 property owners, fund managers and investment valuers of major property funds in the UK and identified some evidence of influence of fund managers on investment property valuations. Property portfolio valuations in the UK, for example, are mainly undertaken on the monthly and quarterly basis to determine the market value of property investments managed by property funds. These valuations at the individual portfolios are integral to the construction of Investment Property Databank (IPD) index, which is used to benchmark the performance of different property funds in the UK. This research, in particular, further highlights how draft valuation meetings could be used to change the valuation outcome. Levy and Schuck [35] also uncovered this practice in New Zealand. The research also suggests that about 20-50% of valuations would normally be challenged at the draft valuation meeting and a 50% out of this proportion are more likely to change in value.

In another related study, Crosby *et al.* [31] show that client influence could be one possible explanation for the differences in the capital return falls among different type of funds in the UK during the second half of year 2007. In this research, it was found that open ended funds' return fell far more than pension funds and insurance companies even after controlling for differences in portfolio structures. In this study, Crosby *et al.* [31] compared the hypothetical return series of three types of funds and the actual capital values with the overall IPD capital growth between year 2004 and 2008. The hypothetical return series for funds were estimated using IPD Portfolio Analysis Service (PAS) quarterly returns and market capital weight in each fund type. The comparison between hypothetical and actual return series shows that open ended funds' actual capital values fell 3.5% more than the benchmark capital values. Further exploratory statistical tests confirmed the significance of these higher capital value drops compared to pension funds and insurance companies even though the regression model does raise some specification issues. Crosby *et al.* [31] suggest that the downward pressure on capital values by clients at the time might be related to the redemption obligation encountered by the open ended funds.

Chen and Yu [34] compared client influence on valuation in Taiwan and Singapore. One of the main conclusions from their questionnaire survey is that the nature of client influence in certain countries and markets can be closely related to market structures, development background and business practices. Chen and Yu [34] argue that these differences appear to explain the degree and extent of client influence problem in both countries. Hence, it is important to understand the cultural, social and institutional settings within which client influence occurs and how these country-specific factors could be enhanced to

eliminate client influence on valuations. For instance, business ethics may be less well developed in some countries and markets, including those for property, may be less transparent. So far, virtually all studies of client influence on valuations have focused on the leading countries in the Jones Lang LaSalle Transparency index [40] – the US, UK and Australasia. There are no major studies of less well developed countries except Nigeria. Therefore, this study would also provide an opportunity to compare the behavior of valuers and clients working in a different market and professional culture.

3.0 METHODOLOGY

A questionnaire survey was utilised in this study. The objectives of the survey were to examine the perception of valuers on the factors affecting client influence and the impact of such influence on property valuation. A questionnaire survey was carried out on valuers and valuation firms in two major cities in Malaysia, i.e., in Federal Territory of Kuala Lumpur and Johor Bahru. Considering the status of Kuala Lumpur as the capital city of Malaysia and Johor Bahru as the capital city of Johor, a major southern state in Peninsular Malaysia, these two cities cover almost all of the major valuation service providers in the country. The number of valuers practising in these two cities represents approximately 30% of total valuers in Malaysia. This percentage of valuers includes registered valuers and probationary valuers currently listed with the Board of Valuers, Appraisers and Estate Agents Malaysia (BOVAEA). After pre-testing the questionnaire, it was randomly mailed to a total of 400 valuers working in Kuala Lumpur and Johor Bahru. A total of 135 respondents returned the questionnaires resulting in a response rate of 33 per cent. This response rate is not surprising given the average response rate for similar field surveys in Malaysia.

The questionnaire was divided into two parts to identify, firstly, the perception of respondents of factors affecting client influence and secondly, the potential impact of client influence on property valuation. With respect to the factors affecting client influence and in line with Levy and Schuck [36] and Kamalahasan [28, 37], the questionnaire survey examined the perception of valuers on the characteristics of valuer and valuation firm and the characteristics of client. The characteristics of valuer and valuation firm, for example, include the integrity of valuer, valuer's level of experience, and size of the valuation firm whilst the characteristics of client included in the survey were type of client, size of client and valuer-client relationship.

The responses were measured on a Likert 5-point scale ranging from 1 (strongly disagree) to 5 (strongly agree). The second part of the questionnaire involved an experiment to identify the likely impact of client influence on valuation. This experiment was designed following the work of Kinnard *et al.* [22], Worzala *et al.* [30] and Amidu and Aluko [33]. The respondents were asked to assume the role of a valuer who is subject to

an ethical dilemma with a client when the valuer derives a value lower than the one the client preferred. Prior to the closing date for submission of the valuation, the client provides unverified data that would increase the value of the subject property. However, due to time constraints, the valuer is unable to validate the new information before the delivery of valuation report. Given the strict submission date specified by the client, the respondents were asked to decide whether they would adhere to the client's request to revise the valuation or accept the initial valuation as it is.

In this behavioural experiment, client influence was measured by two external factors: the client size and the amount of value change demanded by client. The client size was considered to be directly related to how much of the valuer's business the client provides (previous studies have identified small – 5 percent or less of the revenue and large – 30 percent or more of the revenue), whilst the amount of value adjustment requested by client was divided into 'small' (5 percent or less of the initial value) and 'large' (20 percent or more of the initial value). Hence, client influence was analysed using these two alternative measurements based on four different situations as presented in Table 1.

Stated in the alternative format, the following hypotheses were tested:

- i. **H1_i** = Valuer's value estimates are affected by the size of client, as measured by a percentage of the valuation firm's annual revenues. In other words, the larger the client, the more likely the valuer would be to change a value estimate in response to that client's request to do so.
- ii. **H2_i** = Valuer's response to a request for a value adjustment is affected by the size of that value adjustment. In other words, a valuer is more likely to change a value estimate if the magnitude of the value adjustment is small.
- iii. **H3_i** = Valuer's value estimates are jointly affected by the size of the client and the amount of the value adjustment requested by the client.

The four scenarios were randomly but equally divided amongst the sample. Moreover, the distribution of case scenarios was done such a way that each valuer received just one scenario. This strategy was important in ensuring the internal validity of the experiment.

Table 1 Client influence scenarios

Amount of Value Adjustment	Size of Client	
	Small	Large
Small	Case 1	Case 2
Big	Case 3	Case 4

Considering the above, a logistic regression model was used to measure the strength of relationship

between client size, amount of value adjustment as well as the interaction of these two variables with the valuation decision made by the respondents. The statistical model to be tested is as follows:

$$P_i = \beta_0 + \beta_1(X1) + \beta_2(X2) + \beta_3(X1X2)$$

Where,

P_i = Dependent variable for valuer i , where, 1 = valuer chooses to revise the report, 0 = valuer chooses to turn in the report "as it is".

$X1$ = Independent variable representing the size of the client, where, 1 = large, 0 = small.

$X2$ = Independent variable representing the size of the adjustment to the value estimate, where, 1 = large, 0 = small.

$X1 X2$ = Interaction of the client size and the size of the adjustment

4.0 FINDINGS AND DISCUSSION

Table 2 shows the background of respondents participated in this survey. A majority of the respondents had a Bachelor Degree in either Property Management or Estate Management (81.5 per cent) while 10.4 per cent had a related diploma qualification. This profile of respondents shows that the majority of respondents hold tertiary education in the field of property valuation.

Table 2 Characteristics of respondents

Background	Frequency	Per cent
<i>Academic qualification</i>		
Diploma	14	10.4
Bachelor degree	110	81.5
Master degree	5	3.7
Others	6	4.4
Total	135	100
<i>Professional qualification</i>		
Registered valuer	26	19.3
Probationary valuer	109	80.7
Total	135	100
<i>Year of valuation experience</i>		
1-5 years	66	48.9
6-10 years	28	20.7
11-15 years	15	11.1
16-20 years	11	8.2
More than 20 years	15	11.1

However, considering the small number of registered valuers in Malaysia, only about 20 per cent of the study respondents were registered valuers whilst the remaining respondents were probationary valuers. Table 2 also shows that about 50 per cent of the respondents have between one to five years valuation experience followed by 20.7 per cent respondents with six to ten years experience. The remaining about 30 per cent respondents have more than ten years working experience, which includes 11 per cent respondents with more than 20 years valuation experience. As such,

it is reasonable to assume that this group of respondents should have adequate hands-on knowledge and exposure to issues relating to client influence. The first objective was to examine the extent of client influence on valuers in Malaysia. It was achieved through frequency analysis and descriptive statistics of mean. The analysis results are shown in Table 3 and Table 4.

Table 3 shows the perception of respondents on the factors affecting client influence on valuations. The main findings are discussed here. The first question explored whether valuers at times are willing to compromise their professional integrity in order to satisfy client's value requirement. More than 55 per cent of the respondents indicated that this is the case in practice. Considering another 11 per cent of the respondents chose the "not sure" answer, the 55 per cent indicates credibly the reality of unprofessional behavior of valuers in the country. Such behavior, unsurprisingly, may be a nature of a competitive market in which firms have to compete for clients and maintain profits. However, there was no clear indication from respondents on the statement whether consultancy services provided to the same client could be another influencing factor.

On the other hand, the survey also asked respondents whether valuer's level of experience may provide clients with an opportunity to influence valuation. The findings in Table 3 shows that a total of about 50 per cent of respondents answered either "agree" or "strongly agree" to the statement compared to about 36 per cent of respondents who did not agree. Although this is not an overwhelming support to the "valuer's experience" factor, it does show that experience is generally important in confronting client influence situations. With respect to type of client, it is clear from the findings that valuers may be subject to more pressure from clients who contribute a large share of their income or fees such as banks than individuals or one-off clients. About 65 per cent of the respondents agreed that bankers are most likely to influence valuers than other types of clients such as private individuals. This finding reflects how the urgency to increase the

number of residential property loans and "commission per deal" policy tend to exert pressure on valuers in Malaysia. A similar result was also found in Smolen and Hambleton [29] study. In Nigeria, private individuals were found to influence valuers more than other categories of clients [33]. Moreover, about 59 per cent of respondents indicated that returning or regular clients are more likely to get the value that they expect from valuers than one-off clients. In other words, there is a possibility that familiarity and length of business relationship with clients to influence valuation outcomes.

A number of questions related to characteristics of client, in particular, size of client were also asked in this survey. For instance, respondents were asked to answer some questions on whether big clients tend to have more opinion on the value and give more feedbacks on valuers' work compared with small clients. Literature shows that these value expectations and feedbacks could influence valuer's decision-making. Indeed, over 70 per cent and 57 per cent of respondents of this survey agreed to the statements respectively. In addition, more than 60 per cent of the respondents claimed that big clients put in more requests to modify values compared with small clients. About 59 per cent of the respondents also agreed that they were able to deal with small clients better than big clients. Hence, size of client may have an effect on valuation outcome in Malaysia. This survey, however, does not indicate that big valuation firms will have any advantage in handling client influence compared with small valuation practices. In contrast, Levy and Schuck [35] suggest that smaller firms may be more exposed to client influence than the larger multidisciplinary firms because of the latter's resource capability and access to more timely information. Moreover, valuers working in smaller firms are under more pressure to sustain the income level of their company than the larger firms which usually have more diversified client types [36, 37].

Table 3 Valuers' perceptions of the main factors affecting client influence

Client influence question	SD	D	NS	A	SA
Valuers sometimes compromise their professional integrity by providing valuation to reflect client request. (Integrity of professional valuer)	6 (4.4%)	39 (28.9%)	15 (11.1%)	73 (54.1%)	2 (1.5%)
Valuers' involvement in other consultancy work for a client is likely to influence valuation judgement in respect of that client. (Integrity of professional valuer)	7 (5.2%)	43 (31.9%)	30 (22.2%)	44 (32.6%)	11 (8.1%)
Valuers' level of experience provides opportunity for client to pressurize on the valuation figure. (Valuer's level of experience)	9 (6.7%)	40 (29.6%)	18 (13.3%)	57 (42.3%)	11 (8.1%)
Larger valuation firm tends to be more confident with the valuation figure they give to client than smaller valuation firm. (Size of valuation firm)	14 (10.4%)	52 (38.5%)	19 (14.1%)	45 (33.3%)	5 (3.7%)
Valuers/ Valuation Firms who are earning a large proportion of revenues from a particular client are under more pressure from this client than others. (Type of client)	7 (5.2%)	27 (20%)	25 (18.5%)	74 (54.8%)	2 (1.5%)
Certain categories of client like lender are more likely to apply pressure to influence on valuers than private individual clients. (Type of client)	13 (9.6%)	22 (16.3%)	13 (9.6%)	70 (51.9%)	17 (12.6%)
Big client expects more or tend to have more says in value than small client. (Size of client)	8 (5.9%)	21 (15.6%)	11 (8.1%)	77 (57.1%)	18 (13.3%)
Big client tends to give their opinions and advice on property value. (Size of client)	4 (3%)	34 (25.2%)	20 (14.8%)	70 (51.9%)	7 (5.1%)
Big client is more often asks for value adjustment compared with others. (Size of client)	4 (2.9%)	36 (26.7%)	13 (9.6%)	73 (54.1%)	9 (6.7%)
Small client is easier to handle compared to big client. (Size of client)	9 (6.7%)	39 (28.9%)	7 (5.2%)	54 (40%)	26 (19.2%)
Returning client tend to be more confident to get preferred valuation outcome than one-off client. (Relationship with client)	4 (3.0%)	27 (20.0%)	24 (17.8%)	72 (53.3%)	8 (5.9%)
One-off client tends to apply more pressure on valuers compared with returning client. (Relationship with client)	8 (5.9%)	65 (48.2%)	35 (25.9%)	25 (18.5%)	2 (1.5%)

Note: SD = Strongly Disagree; D= Disagree; NS= Not Sure; A=Agree; SA=Strongly Agree

Table 4 Mean ratings of client influence factors as perceived by valuers

Client influence factor	Mean	Rank
Type of client	3.41	1 st
Size of client	3.40	2 nd
Integrity of valuer	3.19	3 rd
Valuer's level of experience	3.16	4 th
Relationship with client	3.00	5 th
Size of valuation firm	2.81	6 th

Table 4 shows that type and size of client ranked as the two most frequent sources of client influence. Indeed, these characteristics of client will have impact on the amount and type of influence exerted on the valuers [35]. The next two factors relate to valuer

characteristics, in particular, the integrity and experience of the valuer. A high level of integrity and valuation experience are imperative in dealing with client's value expectation and means to influence valuations [28].

The second part of this survey was used to measure the impact of size of client and size of the value adjustment requested by client in relation to a valuation. This was a simplified experiment to study the behavior of valuers in practice who often have to provide objective value opinions without losing clients. Respondents were asked to indicate their decision to revise a valuation or not in the wake of new information provided by their client. In order to observe any change in their decision, if any, the client size and value adjustment requested by client were represented as "small" and "big" respectively. Out of 135 sets of questionnaires distributed, a total of 38 (28 per cent) chose to revise their original valuation to incorporate the client's unverified information. Surprisingly, of those who revised their valuation, there was no difference at

all between “small” and “big” categories for both client size and amount of value adjustment. Similarly, of those who did not revise their valuation, the largest number responded to big client/small adjustment category. Hence, this result shows that the decision of majority of respondents were not distracted by the size of client. Table 5 shows the frequency distribution of respondents by four scenarios.

Table 5 Frequency distribution of respondents by four scenarios

Amount of Value Adjustment	Size of Client			
	Small		Large	
	Yes	No	Yes	No
Small	9	13	10	33
Big	9	21	10	30
TOTAL	18	34	20	63

Note: Yes= Revise report; No= Turn report in as it is

A logistic regression model was then used to analyse the significance of client size, size of value adjustment and the combination of the two variables on the valuer's decision to revise the report or submit the report without any changes in value. The results of the regression are presented in Table 6.

Table 6 Results of the logistic regression model

Variables in the Equation						
	B	S.E.	Wald	df	Sig.	Exp (B)
Client Size	-0.826	0.564	2.144	1	0.143	0.438
Value Adjustment	-0.48	0.589	0.663	1	0.415	0.619
Interaction of Client Size and Value Adjustment	0.575	0.781	0.541	1	0.462	1.777
Constant	-0.368	0.434	0.719	1	0.396	0.692

Results in Table 6 clearly shows an insignificant relationship between client size and the respondents' valuation decision ($p > 0.143$). This result does not support the rejection of the null research hypothesis, $H1_0$ and therefore client size does not seem to have any effect on the valuation decisions made in this experiment. With regard to the amount of value adjustment requested, a similar result was noted ($p > 0.415$). Again, this result does not support the rejection of the null hypothesis $H2_0$ as the magnitude of a client-requested value adjustment did not cause a change in the valuers' decision-making. Finally, the interaction effect between client size and the client-requested adjustment size also indicated a non-significant

relationship to the decisions made by respondents ($p > 0.462$).

The implication of the results above is that client size and the amount of value adjustment requested by clients do not seem to have any significant effect on valuers' decision. The interaction of these two variables is also not significant in affecting the valuers' decision. In fact, these findings are consistent with the results of Amidu and Aluko [33] in Nigeria, Yu [32] in Singapore and Worzala et al. [30] in the United Kingdom. Only, Kinnard, et al. [22] found some evidence in support of client size effect on valuations.

5.0 CONCLUSION

This study mainly examines the perceptions of Malaysian valuers of the factors affecting client influence on valuations and the impact of client size on valuation outcomes. This is necessary considering the existing research on client influence has clearly shown that pressures and influences from clients can indeed challenge the impartiality of the value opinion provided by valuers. Any attempt to compromise the requirement to produce an objective and independent value opinion can affect public trust in the profession. Furthermore, it is important that clients understand their role the valuation process and why it should not hamper the very reason valuations are required.

This study found that valuers in Malaysia perceived client characteristics and valuer characteristics as some of the most important factors affecting client influence on valuations. In particular, factors such as type of client, size of client, integrity of valuer and experience of valuer could potentially impact on the amount and type of influence exerted on valuers. Client characteristics are part of the nature of valuation industry, not only in Malaysia but also in other emerging and developed markets. Client influence reported by respondents of this study mostly comes from the lenders and loan brokers. This should not be overly startling in a industry where valuers are burdened with verbal indicative values and pressure to endorse indicative values through formal valuations⁴¹. Valuers, on the other hand, with the increasing harmonisation of valuation standards across the world and transparency in the local market, will have to adhere to high ethical and professional standards. Such principle would help valuers to build good reputation in the industry and well-prepared for challenges such as client influence and liberalisation of the valuation industry.

The second part of the study explored whether valuers' judgement in a hypothetical valuation scenario could be biased by the size of the client, measured in terms of its revenue contribution to the firm and/or the size of the value adjustment demanded. Although the results show that neither the size of the client nor the size of value adjustment did affect valuers' choice, the fact that 28 per cent of the respondents chose to revise their initial opinion is a cause for concern. Moreover, the hypothetical

valuation scenario used in this survey maybe a less complicated problem compared to other real-world dilemmas being faced by practitioners. Therefore, a more sophisticated experiment or other data collection method may be required to understand client influence on valuation.

On the other hand, there is a clear indication from the related literature that client influence is the reality of the practice world that may be difficult to eradicate completely. The responsibility is on valuers to find ways to build business relationship with clients without compromising their reputation and professionalism. They have options to persevere with their principle and be prepared to lose clients. In the context of Malaysia, the Board of Valuers, Appraisers and Estate Agents Malaysia needs to continuously ensure strict enforcement of its code of conduct and ethics while at the same time improving its efforts in educating the clients and other stakeholders on the need for impartial property valuations. The fact remains that there is much more to discover about client influence on valuation outcome and valuation process and more importantly its role in the valuation accuracy and variation debate.

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